



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

January 11, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

**James Bruce, Legal Counsel for Arch Petroleum,
Inc. and Westbrook Oil Corporation**

P. O. Box 1056

Santa Fe, New Mexico 87504

Gallegos Law Firm

Attn: J. E. Gallegos, Legal Counsel for Fulfer Oil & Cattle Co.

460 St. Michael's Drive - Building 300

Santa Fe, New Mexico 87505

Re: *Division Case No. 13274: Application of Arch Petroleum Inc. ("Arch") and Westbrook Oil Corporation ("Westbrook") for approval to divide the existing 320-acre non-standard gas spacing unit in the Jalmat Gas Pool (79240) comprising the S/2 of Section 20, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico (approved by Division Administrative Order NSP-420, dated March 31, 1958), into two non-standard 160-acre units comprising the: (i) SW/4 of Section 20 to be dedicated to Westbrook Oil Corporation's existing Steeler "A" Well No. 1 (30-025-10805), located at a standard gas well location 1980 feet from the South line and 660 feet from the West line (Unit L) of Section 20; and (ii) SE/4 of Section 20 to be dedicated Arch Petroleum, Inc.'s Resler "B" Well No. 1 (API No. 30-025-36573), recently drilled at a standard gas well location 1980 feet from the South and East lines (Unit J) of Section 20.*

Dear Messrs. Bruce and Gallegos:

After reviewing the testimony presented at the May 27, 2004 hearing in this matter, I have determined there to be a potential correlative rights issue due to inadequate notification under Division Rule 1207.A (8), which rule states "[N]otice shall be given as required by the Division."

While the notification rules for the Jalmat Gas Pool may or may not have been adequately followed, my review of the testimony indicates the application sought by Westbrook and Arch serves to delete or dilute certain mineral interest in the Jalmat Gas Pool underlying the S/2 of Section 20.

I believe the issue in this case is not merely to establish two non-standard spacing units but, is in effect a request to cut in half or diminish in size an established unit of spacing whereby all mineral and leasehold interests within the S/2 of Section 20 have shared in the production of gas from the Jalmat Gas Pool since March 31, 1958 (when Division Administrative Order NSP-420 was issued). By ignoring all owners of mineral interest within this existing spacing unit and not providing these interest owners notice and an opportunity to object, the Division would be in remiss. This matter is reminiscent of the Uhden matter and avoiding any appearance of infringement of correlative rights now certainly warrants any inconvenience.

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I therefore find this matter an adjudication matter, one that is "not listed" [see Division Rule 1207.A (8)] in either the Jalmat pool rules or Division Rule 1207.A (3).

In fairness to all mineral interest within the Jalmat Gas Pool underlying the S/2 of Section 20, Case No. 13274 will be reopened to the Division Examiner's hearing scheduled for February 17, 2005 and will be limited in scope. At the time of the reopened hearing the applicants in this case shall provide: (i) a listing of all mineral interests (royalty, working, and overriding royalty) within the Jalmat interval underlying the S/2 of Section 20; and (ii) proof of notice under Division Rules 1207.B and C to all such mineral interest owners.

Sincerely;



Michael E. Stogner
Engineer/Hearing Officer

cc: New Mexico Oil Conservation Division - Hobbs
Case File 13274
Ms. Florene Davidson, Staff Specialist - NMOCD, Santa Fe
Mr. Mark E. Fesmire, P. E. - NMOCD Director